



## TESTIMONY OF AARP CONNECTICUT

ON H.B. 5783, S.B. 587, S.B. 589, H.B.  
5815, H. B. 5817, and H. B. 5819

March 7, 2008

Thank you for the opportunity to testify on the critical issue of energy prices in Connecticut. AARP is a nonprofit, nonpartisan membership organization that helps people 50+ have independence, choice and control in ways that are beneficial and affordable to them and society as a whole. AARP has over 625,000 members in Connecticut, most of who are now paying the highest electricity rates in the continental U.S. It is obvious that the restructuring of the electric market adopted in 1997 has been a failure for all residential customers. AARP has long argued that it is essential for the state to address the utility rate crisis. Business as usual continues to expose ratepayers to high electricity costs. Reforms are needed to help stabilize and reduce electricity rates, and to address the specific needs of lower income households.

Electric deregulation has failed to live up to its promise. Numerous studies have shown that consumers in restructured states are being hit with larger rate increases than consumers who are served by regulated utilities. An analysis released just days ago by Carnegie Mellon Electricity Center concluded that the only beneficiaries of deregulation are the utilities themselves:

*The combination of introducing retail competition into an electric utility's operating territory and divestiture of that utility's generation assets has increased costs, but has increased prices even more. In particular, we find an average difference of 2 to 3 cents per kWh between prices and costs that is explained by restructuring rather than by increases in fuel prices. We conclude that restructuring has been beneficial to companies that restructured, but the evidence is far less clear concerning benefits to consumers.*

The situation in Connecticut is serious. It is essential for the state to adopt reforms that ensure just, reasonable and affordable rates and high quality service for residential customers under retail competition. Consumers cannot afford continued increases in price, with less and less assurance of long term reliability. The legislation passed last session fell short in terms of needed reforms. Several of the bills under consideration intend to address the dysfunction in the state's electricity market, by reforming the way standard offer service is procured, by offering greater assistance to certain lower income households, and through greater transparency and accountability.

However, AARP strongly opposes S.B. No. 587, which will significantly raise rates for lower usage customers and actually discourage energy conservation, by unfairly guaranteeing utility revenue levels through significantly higher fixed monthly charges.

**Comments in Opposition to S.B. No. 587:**

S.B. No. 587 requires "decoupling" and other rate design that would allow electric and gas utilities to collect more revenue through fixed charges. AARP strongly opposes this bill. Under decoupling and related lost revenue adjustments, a decline in sales results in increased bills even when the lost sales are wholly unrelated to utility sponsored energy efficiency programs.

Moving costs currently recovered on a usage basis into fixed charges is especially harmful to low usage customers, who are often older households and low income households. Increasing fixed costs, whether through increased customer charges or new adjustment mechanisms, disproportionately increase the bills of low usage customers. Recovery through rates ensures that those high usage customers, who are also most likely to take advantage of

energy efficiency programs, also pay a fair share of the program costs. Moreover, increasing fixed costs actually discourages energy conservation, while volumetric charges ensure that those who use more pay more.

Usually decoupling and increased fixed charges are proposed in relation to provision of energy efficiency programs. However, in this bill the goal appears to be nothing more than guaranteeing revenue recovery for utilities, which is contrary to sound ratemaking principles. Curiously, the bill asks the DPUC to consider the impact of decoupling on the low usage customers and on the utility's rate of return, but only for gas utilities. AARP agrees that both of those issues should be considered if decoupling and other fixed cost recovery mechanisms are employed. However, these considerations are appropriate for both gas utilities and electric distribution utilities.

#### **Comments In Support of Bills:**

##### **H.B. No. 5815**

H.B. No. 5815 will focus on the mission of the DPUC to ensure safe, efficient and high quality service is provided at the lowest reasonable cost to ratepayers. It restores the principle of "just and reasonable" rates, which has been missing from state law since deregulation. It also requires a report on where rates in Connecticut stand in comparison to the national average. AARP supports this effort to ensure the focus of state regulators is on the consumer, and specifically, on ensuring just and reasonable rates.

##### **S. B. 589 and H.B. No. 5817:**

Rising energy prices have hit lower income households especially hard. These bills propose measures with the goal of making energy bills more affordable for lower income

customers. AARP supports measures to increase assistance and targeted energy efficiency programs to make bills more affordable lower income and vulnerable customers.

Lower income customers have been hit hard by rising energy costs. A new study shows that lower income households devote about 8% of their income to paying energy bills; households receiving LIHEAP pay about 10% of their income on energy. Although they consume about the same amount of energy as do younger people, older Americans devote a higher percentage of total spending on residential energy costs. Too often, lower-income older people must choose between risking their health and comfort by cutting back on energy expenditures or reducing spending for other basic necessities such as food and medication.

H.B. No. 5817 intends to secure lower cost energy and expand energy efficiency programs for low income seniors (aged 62 and up) and disabled customers who receive benefits from the Connecticut Energy Assistance Program or the Contingency Heating Assistance Program. The customers covered by this legislation are especially vulnerable to heat and cold-related illness and death if they cannot afford adequate cooling or heating. S. B. 589 would expand the electric and gas customer discount program by increasing the income limit for participation. AARP recommends that an automatic enrollment program should be added to ensure that all of those who are eligible are enrolled.

#### **H. B No. 5819**

This bill relates to procurement of standard service, with the goal of achieving the lowest reasonable rates for ratepayers through least cost procurement and mitigation of price volatility, which are principles that AARP supports. H .B. No. 5819 seeks to accomplish these goals through the creation of a state power authority and a procurement process that requires a utility

to adopt a procurement plan that includes condition of a mix of options, including bilateral contracts and hedges.

AARP takes no position on whether the power authority is the best mechanism to accomplish these important goals. However, what is essential is that the bill would reform the procurement process for standard service, with an emphasis on lowest reasonable cost and mitigating price volatility. AARP has long advocated for a return to the “least cost” principle of supply for standard service. The goal of this legislature should be to ensure rates are just, reasonable, affordable and stable for consumers.

#### **H.B. No. 5783:**

This bill recognizes the extraordinary profits that generators are earning on nuclear power plants. Stranded cost recovery, combined with high wholesale market prices, have made nuclear power relatively cheap to generate and highly profitable to sell. Under this bill, the lower cost nuclear power could be included in the state’s energy mix based on cost of service principles, including a reasonable rate of return, thus helping to lower retail rates. If the generator does not agree to sell the power under cost of service principles, it would be required to pay an incentive rebate, as calculated by the DPUC.

#### **Conclusion**

Last session the state took a first step toward fixing the energy affordability problems in Connecticut, but more is needed. Several of these bills will further the goal of restoring reasonable and affordable rates to Connecticut’s consumers. S.B. 587 should not be passed, as it will raise rates to gas and electric customers, with the greatest impact on low usage and lower income customers.